

**Small Businesses' Experiences, Perceptions and Strategies to Survive  
Amidst Rising Health Insurance Costs in Rhode Island**

**A Focus Group Report**

**Submitted by**

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## **Executive Summary**

Three focus groups were conducted in the summer of 2005 with small business owners or their representatives in Rhode Island, and one with self-employed individuals. The purpose of these focus groups was to provide insight into the impact of rising insurance costs on small businesses and self-employed individuals, to learn about strategies taken to enable small businesses to continue providing insurance to their employees, and to obtain the input of small business owners and administrators regarding actions that might be taken by the state to increase the affordability and stability of employer sponsored health insurance in Rhode Island.

The high costs of health insurance for small businesses have had a major impact on profitability and competitiveness in the marketplace, and on the ability to attract and retain good employees. Nevertheless, this group of small businesses reported feeling a family-like responsibility to offer health insurance to their employees despite the burden of rising costs. A number of strategies were described to enable these businesses to continue to offer this important benefit. Below we summarize keys strategies described by focus group participants as well as their recommendations to the state to remedy the situation described as a "lose, lose" proposition for small businesses in Rhode Island.

### ***Strategies Taken by Small Businesses to Lower Health Insurance Costs***

- Much energy was devoted to "shopping" for economical insurance plans, but small businesses found that the methodology for pricing premiums was confusing and lacked transparency. Some reported that the age and gender composition of the employee pool weighed heavily in determining individualized premium costs to the company.
- A number of small businesses reported cost-shifting the rising costs of health insurance to employees by selecting plans with higher deductibles and/or co-pays, or by asking them to pay a larger share of their premium.
- Some small businesses resorted to presenting an option to their employees: pay more for insurance or forego a pay raise this year. Virtually all employees opted to forego their raise.

- A key strategy employed by many small businesses to reduce health insurance costs is to operate with a part time labor force since current law requires businesses that offer health insurance to offer it to employees who work 30 hours or more.
- Another tactic employed to reduce costs is to hire individuals who are already covered under a spouse's insurance plan.

### ***Participants' Recommendations to the State***

- Participants argued for community-based ratings for health insurance so that small businesses would be pooled for consideration. Similarly, participants argued for insurance co-ops, and to allow associations to form a group.
- In addition, both self-employed and small business focus group participants attribute the current situation to a lack of competition within the state. There was consensus that opening up the market to other health insurance companies would bring down costs and hold companies more accountable to their enrollees.
- Some participants suggested controls on utilization (e.g., no coverage for non-emergent care in the ER), others suggested controlling physician fees, and still others suggested tort reform, reasoning that limiting payment from law suits might indirectly lower physician fees by lowering the cost of malpractice insurance.
- Other participants saw the expansion of RIte Share as an appropriate vehicle to insure the self-employed and small business employees. However, many participants were clearly resentful of the RIte Share and RIte care programs, claiming that the health and utilization behaviors of persons covered by these programs contributed to the current high cost of private health insurance.
- The most far-reaching proposal was for the state itself to sponsor universal health insurance, with employees contributing a percentage of their salary, and employers contributing a percentage of their payroll. This was viewed as a way to ensure universal health insurance coverage within a competitive environment that would keep costs down.

- In general, the tone of these groups suggested consensus on the opinion that health insurance is an entitlement, and as such the state must take a hand in ensuring equitable and affordable access to all.

### ***Policy Implications of Employer-Based Health Insurance***

- It is clear that the impact of rising health insurance costs is not only on the profitability of small businesses but on their existing and potential work forces. While none of the focus group participants directly address the issue of declining employee take-up of health insurance, it is inevitable that some employees will respond to employers' cost shifting by dropping coverage rather than devote increasing proportions of their salaries to this benefit.
- Employers who make hiring and staffing decisions with "health insurance cost avoidance" in mind create bias in who has access to full time employment in RI, since a key strategy employed by many small businesses to reduce health insurance costs is to operate with a part time labor force.
- In addition, businesses prefer to hire individuals who are already covered under a spouse's insurance plan, effectively discriminating against the uninsured. Thus reliance on employer-sponsored insurance creates a Catch 22 situation for some population sub-groups: Insurance is acquired through employment but finding employment is more difficult for those who are not insured. Uninsured status is therefore perpetuated for some individuals, and un-or underemployment as well.
- The age and gender composition of the work force appears to be key in determining the cost of a plan to small businesses, thus creating a hiring bias against older workers (aged in their 40s and 50s) who may drive premium costs up given their risk of higher utilization associated with the onset of chronic conditions.
- Finally, both employees of small businesses and self-employed employees who elect plans with large deductibles to lower the cost of health insurance sometimes find themselves facing financial barriers to accessing the care they need, since all but the most "catastrophic" health events are paid out of pocket by the insured

individual. Thus, the most basic purpose of health insurance, to prevent financial barriers to needed care, is defeated by the high deductible health plan.

### ***The Future***

Many of the issues that were discussed in this focus group effort have been addressed by Governor Carcieri with the introduction of the Health Insurance Affordability and Transparency Act of 2006 to establish SelectCare, an affordable product option for small businesses designed to that creates incentives for consumers, providers and insurers to control the underlying cost of care. This pending legislation is also designed to increase the transparency of health care costs. SelectCare would be funded through the creation of a \$100 million trust fund from securitized tobacco payments to the state, and will provide premium relief for eligible employers and individuals in the form of an insurer risk share arrangement. The new plan design combined with a risk sharing pool is expected to reduce premiums by 20%.

It is hoped that this legislation will enable the small businesses that discontinued health insurance for their employees to once again offer this crucial benefit, and also to enable employees and self-employed individuals to increase their uptake. Employer practices designed to hold the cost of health insurance down, e.g., operating with a part time work force, should no longer be necessary, thus eliminating biases in who has access to full time (or to any) employment and thus to employer-sponsored health insurance. Finally, it is hoped that Rhode Island will soon reclaim its position of having one of lowest uninsured population rates in the nation.

## **Introduction**

In the year 2000, Rhode Island had the lowest uninsurance rate in the nation, with only 6.2% of the total population uninsured. In 2003, the uninsurance rate had climbed to 10.2%, largely due to erosion of employer-sponsored health insurance concentrated in the small business (< 50 employees) sector, and to over 11% by 2004. Since approximately 94% of the RI employers are small businesses, employing 35% of the workforce, this is an issue of substantial importance to the state. In an effort to prevent further erosion of employer-sponsored health insurance and to investigate possibilities for the development of affordable health insurance options in the state, Rhode Island's Department of Human Services received a state planning grant from the Health Resources and Services Administration (HRSA) in 2003 titled "Improving Access to Affordable Health Insurance."

Brown University conducted four focus groups in the summer of 2005 under a subcontract from DHS, three with owners and administrators of small businesses, and one with people who are self-employed. The purpose of these focus groups was to provide insight into the impact of rising insurance costs on small businesses, to learn about strategies taken to enable small businesses to continue providing insurance to their employees, and to obtain the input of small business owners and administrators regarding actions that might be taken by the state to increase the affordability and stability of employer sponsored health insurance in Rhode Island.

A fourth focus group was conducted with self-employed individuals, who are "operating solo" in a high cost health insurance environment, unless they fortunate enough to be covered under the policy of an employed spouse. We sought to gain knowledge of the options available for these individuals, who lacked the group advantage that provided some negotiating power to small businesses.

This report presents the major themes emanating from these four focus groups, illustrated by comments that capture small businesses' experiences and opinions, as well as those of the self-employed.

## **II. Methods**

Recognizing the difficulties inherent in identifying and recruiting small business owners and administrators to participate in focus groups, participant recruitment for the small business focus groups was linked to the sub-sample of small businesses (defined as those with 50 or fewer employees) who participated in the Rhode Island Health Insurance Survey conducted by John Snow, Inc. (JSI) of Boston MA for the Rhode Island Department of Human Services in the Spring of 2005.

Research staff at JSI kept a listing of businesses that agreed to participate in the survey, organized by employee size. In order to preserve the confidentiality of survey respondents, JSI research staff contacted business owners/administrators by phone, explained the nature and purpose of the focus group project, and requested permission for Brown University staff to contact them to learn more about the focus groups.

Respondents who agreed to allow Brown researchers to contact them were mailed letters of invitation to participate. These letters were followed by a phone call from a project staff member to further explain the study, including a \$50 payment associated with participation, and to schedule the group.

A fourth focus group was held with individuals who were self-employed. The potential recruitment pool for the self employed groups was a listing of self-employed individuals who had testified at a 2004 hearing held by the RI Department of Business Regulation regarding a rate increase for non-group health insurance. Since this testimony is part of public record, confidentiality was not an issue for this group. Potential participants were mailed letters of invitation to participate and then phoned for recruitment by a project staff member. Potential participants were also offered \$50.00 to compensate them for their time.

The focus group guides were drafted by Drs Allen and Laliberte, with input from Deborah Isenstadt, a consultant with substantial experience in market research. Initial drafts were reviewed by key DHS personnel on the HRSA grant. Copies of these guides can be found in Appendix A. Focus group participants were provided with a written description of the study and their rights as research subjects, and asked to sign an informed consent to participate form prior to the focus group sessions.

Ms. Isenstadt conducted the sessions, which were tape recorded with the permission of participants. The resulting transcripts were coded individually by Drs. Allen and Laliberte, who met on several occasions to reach agreement on the themes that emerged from the groups and to select quotes from the manuscripts that best illustrated these themes. The entire study protocol was reviewed and approved by the Brown University IRB.



### **III. Results: Small Businesses**

A total of three focus groups were conducted with small businesses. Two focus groups with representatives of small businesses were held in Providence (one with less than 10 employees, and one with 10-49 employees), and one was held in South Kingston with representatives of businesses employing less than 50 employees. While we had hoped to hold groups with businesses who offered health insurance to their employees as well as those who did not, only 13.5% of all businesses participating in the JSI survey did not offer health insurance. Research staff members at JSI were not able to recruit any businesses in this group for participation in the focus groups, either because they were not able to contact them or because they refused to participate. Thus, all three groups were held with business owners or administrators who offered health insurance to their employees.

The first group was conducted in the morning of August 16, 2005 and was composed of 8 representatives from businesses that had less than 10 employees. There were 10 owners/administrators who agreed to participate but at the last minute, 2 were unable to attend. The businesses represented included a home and historical restoration company, a family-owned insurance/ benefits company, an eye care center, a paper distribution company, a home protection company, a paralegal services company, a 75 year old jewelry business and a lingerie company that has been in business for 50 years.

The second group was conducted in Providence in the afternoon of August 16, 2005 and was composed of representatives from businesses that had 10 to 49 employees. There were 10 who agreed to participate and all were in attendance. They represented a 3<sup>rd</sup> generation family owned business, a health care center, an employment service, a child policy organization, an accounting business, a home care agency and an electronics firm.

The 3<sup>rd</sup> focus group of August 18, 2005 was composed of businesses employing less than 50 employees and was located in South County, RI.. There were 9 who agreed to attend the focus group session but one person was unable to attend. They represented a family- run underwriting business, a child care organization, a family community based organization, a food service, a convenience store owners, and a health care facility.

The 4<sup>th</sup> and last focus group, held in the morning of August 23, 2005, was conducted in Providence and was composed of self-employed individuals recruited from a listing of self-employed individuals who had testified at a 2004 hearing at the RI Department of Business Regulation regarding a rate increase for non-group health insurance. Several people who had agreed to come either canceled in advance or were "no shows". The session included 4 participants and their area of expertise ranged from carpentry repair, to landscape design, manufacturing of toner cartridges and a consulting business.

In the following sections we summarize the major themes that emerged during these four sessions.

### **III.a Small Businesses are a "Family Affair"**

The family-like nature of many of the small businesses participating in this study was apparent, particularly among the smallest businesses and those businesses that had been in operation for a long time. Participants communicated a sense of responsibility to their employees that transcended the obligation of an employer:

*"For us we treat our, we're a small business so it's not an impersonal thing. Even though some of them are not relatives, we consider them family and we want to treat them and treat them properly. And we just feel like for us health insurance is an important item and so it should be for our men, and they should not have to worry about any kind of health issues, you know coverage. And if we provide that for them, then it's no longer a problem."*

*"When you have a small business like we do, we become emotionally involved with them. If their truck breaks down on the road and they're broke, you find them a repair and they pay you back \$50 a week. And if someone's phone is shut off and you pay the phone bill and you take out of their pay whatever they can afford. This is what small business is. And then you're becoming emotionally involved with your own employee. You're helping them outside the workplace so that health insurance is a matter of pride too for a company. You want to be able to say we do well to provide health insurance when you care enough about our employees to want to provide this for them because we don't want anything to happen."*

*"I had a meeting with my employees when we reconstructed what we were going to give for benefits. I talked to these people individually to tell them that we were stepping down the plans and I had them approve the step down seriously, especially the married man because I was taking away a lot of benefits that he's not going to get in Coast-to Coast... So I consulted with my employees before I made the changes. Took me many days to make my decisions."*

*"We have a man with 6 children and he's on family plan which is approximately a little over \$2,000 a month. So if you pay the \$500, he would have to pay \$1500 a month out of his pocket. How can he do that and still have 6 children and pay his mortgage? You know, so you have to look at the whole thing and say what is going on. And I talk to a lot of businesses and they say oh we pay for a single plan. Everything over that, the employee has to pay. What would you have to pay them per hour for them to be able to pay this?"*

*"We're all on the same playing field. Not just choose a super plan for us the company's gonna pay and give our employees a very minimal amount of coverage and that type of thing."*

*"Again, the group you're speaking to here, our employees are family."*

### **III.b The Impact of Rising Health Insurance costs on Small Businesses**

The rising costs of employer-sponsored health insurance are a "double whammy" for small businesses, simultaneously *cutting their profits and decreasing their competitiveness* in the marketplace:

*"We're very open about sharing this (high cost of insurance) in our meetings because it is a huge, huge portion that comes out of the profitability."*

*"It (health insurance) is extremely expensive and we are just a small company. It does affect your bidding process when you are putting in bids with other companies. It's getting to the point where it's extremely difficult you know because it's so much per month for ours."*

*"The (health insurance) cost of those 8 employees amounts to about \$75,000 a year. Now in our business, distribution business, normally your net profit after tax is about 2%. So I don't need to tell you how big of a nut that is to try and do it."*

*"I feel that if the rates continue to rise we're not going to be able to either keep the business open or we're going to have to stop offering health insurance. It's a big bind."*

*"So one way or another, we're in a lose, lose situation."*

A third area of impact is the *ability to attract and retain employees*:

*"I'm discouraged, sometimes very angry especially in December when I get our rate hike. I feel helpless because what can you do without health insurance. You go in the hospital, you go anywhere. What can you do without insurance? It's necessary for our employees, for us as employers to have. In order to get employees today, you have to offer something. How can you hire someone and you don't offer them anything? .....*

*" But if we had half of this as our bill, we'd be able to pay our people more."*

*"We're hiring more and more seasonal people...and...I'm now laying more people off, off-season, so I run the risk of not being able to get most of them back after training them."*

*"You want to retain your good employees that have been with you a long time. So you know it's like pay increases or we'll cover your medical. And because I'm looking at it, I'm looking at the numbers, a hundred thousand dollars a year. How can a company afford that?"*

*"We just can't offer the benefits like you said. In our industry we can't offer the bennies that the big stores, the conglomerates can offer. So we've lost employees due to that, because of the co-pay and we have gone from 100% pickup, now we've had to go to 50% just to stay alive. I mean we're a small company. We're a single store. We're not a 30*

*store chain or anything else that can spread it out... You try to be competitive to stay alive, but we can't."*

*"One of the individuals recently moved to Maine and we chose not to replace him. People knew this was needed and wanted to work for us and approached us. And everyone who approached us needed healthcare. We didn't hire because of that."*

### **III.c Strategies to Cope with Increasing Costs**

The focus group participants shared an ongoing struggle with the increasing costs of health insurance. There was an underlying sense of despair at the prospect of not being able to continue to provide health insurance for their employees, despite a variety of strategies employed to offset this escalating expense. In the following sections we described the strategies undertaken by focus group members, which are organized into the following themes and subthemes:

- Selecting Health Insurance Plans
  - Save a little, give up a lot
  - Little information, lack of transparency
  - Age and gender matter
  - Choosing plans according to employee needs
  - Use of brokers
  - Health Savings Accounts
- Transferring costs to employees
  - A difficult choice: Increase in employee share of premium or eliminating pay raise
  - Higher deductibles and co-payments
- Workforce strategies
  - More reliance on part-time labor
  - Influence on hiring decisions
  - Employee incentives

### III.c.i Selecting Health Insurance Plans

*Save a little, give up a lot* As the cost of health insurance increased, most small businesses tried to select health insurance plans that would decrease costs to the business, but others felt that these alternative plans required them to give up too much for only minimal savings.

*“They give us these massive sheets with everything that Blue Cross offers. And you can go down step by step and you know what the co-pay is for this, what the hospitalization ...costs. And sometimes it’s only 10 or 15 dollars less per month. And instead of hospitalization being paid for they have like a \$500 co-pay or a \$1,000 co-pay. And so you look at it and say, that’s ridiculous. I mean, how much money as a company am I going to save and how is this going to affect my employees?”*

*“You give up lots for minimum savings.”*

In addition, a number of participants expressed reluctance to select less extensive plans that would affect continuity of care, or that would take away their freedom to choose their own physician.

*“We have a lot of families with children and everyone is used to their own doctor, pediatricians, etcetera and want to be sure those relationships aren’t touched. That’s very important to us.”*

*“People like the flexibility of being able to choose who they want without having to change a relationship to save \$3 on a premium this year and next year it’s gonna change. It’s just very unsettling. People don’t deal well with change especially when it comes to the health of their family. I mean that’s kind of crossing the line.”*

*“(The HMO plan) actually got more expensive than Healthmate when we went up for renewal, for less the benefit. I said why, are you people crazy? I had one premium that was \$500, for example, and then the gate-keeper HMO with less the benefit and more due diligence on the employee and very little flexibility was like \$70 more. Why would you want that plan?”*

However, another small business reported that it changed from Healthmate Coast-to-Coast to a Blue Chip (an HMO) product to reduce costs. To this business, the “gatekeeping” requirement of Blue Chip, i.e., allowing access to specialists only through referral of the primary care physician, was viewed as a minor annoyance well worth the savings.

*“We currently have 11 employees and we have 8 covered. Five with the family plan, two under individual and spouse and one under individual. The cost of those 8 employees amounts to about \$75,000 per year. We pay 75% and the employees pay 25%. It’s a Blue Chip product. I formerly had Coast-to-Coast and it was tremendous. It’s somewhat inconvenient to have to call your primary physician to be referred, but it’s an inconvenience we can live with.”*

***Little information, lack of transparency*** The selection process for small businesses can be “very confusing.” Small businesses reported that it was difficult to make decisions with the information that was available to them from insurers and that the methodology for pricing small group plans “lacked transparency” and often seemed irrational.

*“Even the plans within Blue Cross (are) not comparable year-to-year. It’s very confusing and...I’ll just do what I did last year ‘cause I can’t deal with it because it’s too hard.”*

*“I couldn’t believe it when we got our increases. We did a lot of study. I pulled in a lot of information. We contacted Blue Cross and Blue Shield and we had consultants...I did in-depth analysis, looking at the numbers. (She asked BCBS) How did you come up with this increase? And they said, ‘Well, your age has changed.’ I said, ‘Well wait a minute.’ I took the date of birth of each employee, what their age was. As of what date? Well, put it all together, we should not have had the increase we did. They said, ‘Well that’s not the only factor.’ I said, ‘Okay, can you tell me what the factors are and how you weigh them?’ No, they will not. There’s no transparency whatsoever.”*

*“My husband and I are both under a single plan because it’s less expensive that way...instead of taking a family plan.”*

***Age and gender matter*** Small businesses reported that the age of their employees was an important factor in their rates and that as very small groups they were particularly vulnerable.

*“We had a small company. Nobody was sick. All we did was go for regular visits, regular checkups, whatever they were, nobody was sick. And because of age and gender, we got hit in the head.”*

*“We have a lot of employees that are older...and this is what’s killing us...they told us we have to have young people in their twenties and then our prices would go down...our company with 15 employees has a bill over \$12,000 a month. How can you pay that when it doesn’t bring anything in? And yet we can’t lower it because our employees are in the 40, 50, 60, the higher age bracket.”*



*“They kept telling me you have to hire younger people...You have to have a certain number of people under a certain age...in order to get the lower price rate. It didn’t matter how many times they went to the doctor.”*

*“We get ours through the RI Builders Association....I think they have 900 members that are in this health plan and no 2 companies have the same rate because everybody’s composite is different. Before (the legislature mandated small businesses could not be insured as a group) it was doable because we were spreading out the cost over so many members. Since that no longer is (true) and your own group is being rated...My husband and I are older... We don’t have any real young employees and of course they’re putting age as a factor when they determine your cost.”*

This small business owner believed that even if the legislation were revoked and the RI Builders Association could become a single group, the cost savings might not be significant. Because premiums are now so high, younger workers would be likely to go without health insurance even if it were offered by their employers. There was speculation that some individual plans offered by Blue Cross and Blue Shield might be less expensive for these younger employees than a plan offered by their employers.

*“Companies with very young employees... just take the risk and companies that have older employees...cannot afford to be without it (health insurance). Younger people...just go along without the health insurance or...negotiate it on their own and get (individual) rates lower than the group.”*

Some participants also thought that the gender composition of one’s employees influenced their plan.

*“What I was told is all it would take is one baby to be born premature. It could cost the insurance company billions of dollars. So as a result, we have to pay an inflated rate because we MIGHT have someone have a baby with problems. It’s crazy. It’s crazy how they featured all that in.”*

***Choosing plans according to employee needs*** Some employers added or increased deductibles to lower premium costs. One small business chose a mix of plans for its 10 employees, based upon their individual situations and health status, and chose to cover 80% of the new deductible for hospitalization because her employees were young and healthy and unlikely to be hospitalized.

*“We have one man who’s on a family plan and the rest are single...and I selected a plan based on their health. They’re all reasonably healthy so the (Healthmate) Coast-to-Coast for everyone would be too expensive. These people could not afford (a \$500*

*deductible for a hospitalization). We will pick up \$400 of that whenever necessary. My husband and I chose Coast-to-Coast because it offers the maximum benefits based on the health of my family.”*

One business switched plans to save money but heard from its employees with chronic conditions that the coverage was not comparable to that of the previous plan. Concern for affected employees motivated the business to switch back the following year.

*“Last year we switched from the Healthmate to the \$250 deductible, thinking that it would be better, but we had some people who had diabetes and other chronic conditions. During the last year, we heard so much that the coverage just was not comparable for them...It was a big impact...So we went back to the old plan, which was \$500 deductible but it was a better plan.”*

**Use of brokers** This confusion around selection of health plans illustrates why some small employers are using brokers to help with the selection process, and in some cases, to help “game” the system.

*“My husband was the primary subscriber and I was the spouse [on a family plan]...And then he went into the next decade and so she [broker] called, and being that I am a few years younger than he, she said, ‘if we reversed this and put you as the primary subscriber and he as the spouse, your rate will go down.’ And I said, does that make any sense? It’s the same 2 people but by just doing a flip flop, the rate went down...maybe \$75 per month.”*

*“You can negotiate with them (the brokers) whereas (with) Blue Cross, it’s like talking to that door.”*

**HSAs** Some participants had experience with health savings accounts (HSAs), also referred to as consumer-driven health plans, and they were mentioned by some as a future possibility, but they were not well understood. Asked how they felt their employees would react to a health insurance plan which gave them more financial control and responsibility for their health care, one small business owner replied

*“I don’t think some of them would understand it cause we’d been (providing health insurance) for so many years...To them it’s like, here’s your health insurance. That’s fine and they’re satisfied.”*

*“I think people are so involved in what they’re doing in their careers, it would be something they wouldn’t have the time for. It’s easier to just go to a PCP and here’s your*

*\$20 and that's it without really sitting down and it's a lot of work. It is. It's a lot of work and you have to have the commitment to have the time to make a consumer driven plan."*

Others' experiences with consumer driven health plans were more favorable.

*"The hard seller with the flexible spending is the use it or lose it rule. You really have to convince people that if you've got fixed expenses and you wear eyeglasses, you're not gonna lose any money [chuckles] And you can really figure it out. If you've got children, you know they're gonna go to the doctor's 2 or 3 times a year and you're gonna go once or twice. If you wear glasses you know you're gonna replace them, so you try seriously to figure it out. You have to estimate your expenses. I myself, I never put away enough. I'm always like spent by April. I must be too conservative, I don't know. But it's just the education part is telling people that they're really not gonna lose the money. But ...having another tax deferral, you know pre-tax vehicle, it's helpful."*

*"I've had good experiences with it (when employed by other businesses). And if you don't use the dollars that the company sets aside for you, you can roll it over the next year and then your bank gets fatter, you know. Then it kicked into somewhat of a Blue Cross scenario when you reach, you know if you utilize it a lot, you hit your cap, then it falls back into just like being almost like an indemnity plan of Blue Cross where you have the 80/20 responsibility and out of pocket expenses....But you can steer the consumer driven plans any way you like as an employer."*

*"I've been reading about it, researched it and we've talked about it and looked at it again, like you say, a lot of work... We've been on the fence about whether or not we're going to do it in the coming year. We just renewed in March so we're looking at Flexible Spending Accounts and it's definitely a way to keep costs down and stuff. We're still trying to decide."*

*"Makes the employee accountable. They take care of themselves. They put money aside. They can take and do whatever they want with it."*

### III.C.ii Transferring Costs to Employees

A common strategy described by focus group participants to reduce employee costs to the business is to ***offer employees a difficult option***: an annual raise or continued payment of health insurance premiums. Employers preferred paying benefits because they are fully deductible.

*“We do pay it 100% for our employees. We figure that is a benefit. Has it affected them? Yes, because like this past year when rates went up, we said we’ll continue paying your health insurance in full but we’re not able to give you a salary increase because it would just cause our rate per hour to go up way too much.”*

*“We have Healthmate Coast-to-Coast and we had to increase our deductible. For the first time this year we have a deductible...we tried not to raise our employees [contribution] but instead gave them an option—that they could forego raises this year...Everyone did.”*

*“It’s better to pay the benefits because then they (employees) don’t have a higher tax salary.”*

*“It’s a balancing act between paying health insurance and paying higher hourly wages.”*

Many businesses reported ***adding or increasing deductibles*** as a way to control costs.

*“The only creative way to keep premiums down that I find is increasing the burden on the employee. It’s making higher deductibles, higher co-pays, more 80/20 for services for X-rays and that type of thing. So the burden is you know again on the employee.”*

*“We offer... Coast-to-Coast but this year we went with a deductible. It was the first time we went with a deductible. And I have to tell you that we always paid full Blue Cross for all our employees up to about 4 or 5 years ago. Our insurance went up 30% the first year, 30% the second year. So we’ve gone up 60% in two years.”*

### **III.C.iii Workforce Strategies and Employee Incentives**

***Going with part time*** It is difficult for small businesses to expand when faced with the increasing cost burden of health insurance. They are hesitant to hire more full time staff or to convert part time positions to full time positions, given that they are not obliged to provide health insurance to part time workers.

*“And we’re thinking that now as we’re growing...are we going to need more full time people...(or) go ahead with the part time people? Well what’s that going to involve, so the point being would you go ahead with the part time people which in a sense is not fair to those people when you look at it.”*

*“We have an employee right now that we really should bring on full time. We can’t do it.”*

***Strategic Hiring*** In making decisions about hiring new staff there is a preference to hire individuals who will not require health insurance (e.g., because it is available through spouse).

*“We’re very fortunate that 3 of our full-time employees have coverage through their spouses.”*

*“Usually in the interviewing process, you know, you go through your benefits and we’ll say we offer health insurance. And normally they’ll say, ‘Oh, you know, this is a big item; I’m interested in the job because of it.’ Or they will just spontaneously say ‘my wife’--cause usually most of our employees are men—‘my wife has coverage already.’ Ears will perk up.”*

*"If I had to make a choice between an employee prospect to meet my company, one has a wife that will take the insurance burden off my back and the other, I am going to go to the wife that had the health insurance coverage, so it creates a bias."*

*"Yeah, this part time woman that I have, actually she’s working over 20 or 25 hours. I don’t know what the break off is for becoming eligible for insurance. But I knew going in that she had it through her ex-husband and her children are covered. So definitely I can afford her. I might not have been able to afford her cause we are tiny."*

*“Let me give you, Housekeeping for example. We have 2 sets of housekeepers. We split, we have those that come in the morning they take care of residents’ suites. They put in part time hours about 4 hours and then in the afternoon comes in another set of housekeepers that take care of common spaces. So you have morning part timers and you have afternoon part timers, and it’s a nice thing for them.....our criteria likewise is 30 hours which would in fact make them eligible but we’re very careful to keep them under that”*

Prohibited from asking directly about need for health insurance, some businesses probe discreetly in the course of the job interview.

*"Basically you try and get to know the applicant and ask simple questions. Are you married? Do you have a family? And you try [small laugh] to get it out of them... You hopefully will so you can make a decision. Isn't it sad."*

**Incentivizing** Some small businesses expressed frustration over providing health insurance to employees who already had coverage through a spouse, and were considering incentives to encourage these employees to not sign up for employer-sponsored coverage.

*"We have a woman who is currently getting health insurance through us even though her husband can get it through his employer. We're thinking about saying you must take it with your husband or we want you to take it with your husband. Here's \$50 a week to allow you to do that."*

*"I've been in companies where they've had like a cash- back. Like if you don't take the insurance, you'll get X amount of dollars a month just for not being on the insurance kind of response that has coverage. But a lot of companies have done away with that because that was an added expense on top of the premiums going up. So if you have insurance, that's nice."*

One business mentioned educating its employees as a workforce strategy.

*"I try to promote the mail order drugs because you get 3 months supply for 2 months co-pay...But it's tough to teach old dogs new tricks. They're just creatures of habit and they're used to doing things their way...People aren't good consumers when it comes to health care."*

#### **IV. Results: Self-Employed**

Self-employed individuals have very few options for health insurance if they do not receive it through a spouse. The participants in this group included a self-employed woman who needed coverage for herself and her daughter, a man who needed coverage for himself and his wife and a couple who needed coverage for themselves and their two children.

##### **IV.a Description of Coverage**

Three of the four participants in the focus group had a version of Blue Cross and Blue Shield Direct Pay. Self employed people with this plan pay more for the same services than business employees because they are obliged to pay the difference between what Blue Cross is willing to pay and the amount charged by the health care provider.

*“They told us it’s Direct Pay because when you go to the doctor, you pay, and then they reimburse you at a later date. I don’t think a group would carry it because of all the paperwork that you, as an individual, have to take care of. When we had Healthmate Coast-to-Coast...you paid your \$10 co-pay and you never heard another word with paperwork, but with this [Direct Pay] Blue Cross determines what they’ll pay your doctor. Let’s say they do a procedure or test that costs \$150, you pay your doctor that \$150 by check. You submit that to Blue Cross, but Blue Cross will only pay...\$90.”*

Another participant reported experience paying for emergency room services.

*“We just waited until we got the bill and they took out whatever they [Blue Cross] were gonna pay and we paid the difference.”*

The participant with United coverage for herself and her daughter reported that her plan was similar to a group plan, but very expensive.

*“...It’s roughly \$830 (per month) for 2...it requires a co-pay for a doctor visit and there’s certain penalties. If you use the emergency room, you’d have to pay \$50 and that changes every so often. But for the most part it is up-front coverage with...just the co-pay. Covers prescriptions and that’s another co-pay.”*

Costs were also very high for the couple with Blue Cross and Blue Shield Direct Pay.

*“I pay \$2,663 per quarter (i.e., \$888 per month) for my wife and myself.”*

The couple with 2 children had a less expensive Direct Pay plan, in which routine health care costs are paid out of pocket.

*“We pay about \$550 per month...And we don’t have doctors’ visits covered or prescriptions covered. That keeps the cost down and we figured that would be the best way for us. My son fell out of a tree one time. That could have been a huge bill, but he was okay...We took him to the emergency room...They took x-rays of every bone in his body. I think that cost us maybe \$400. You know that would have been a fortune. So it pays the real big stuff, but we have to cough up \$150 for my physical...I think our deductible is \$500 but I’d have to check.”*

This participant went on to describe her experience with access to timely care and appropriate medications with a less expensive plan that nevertheless calls for substantial out of pocket spending..

*“Because we have to pay for it, we’re more careful. We wait the extra day and the cold gets better. It used to be you just walk in there and it was paid for. And then also interestingly prescription drugs I never looked at because we always had deluxe coverage...I found over the counter stuff is pretty cheap. It’s the same stuff or better. I’m finding all this out that I never knew before. So that is a plus of having to pay for it. I think people are more careful about it.”*

Participants reported that obtaining answers about their coverage from insurers was time consuming and unpredictable.

*“If you do have a problem...with Blue Cross...the time it takes on the telephone to solve a problem today is, you know, 2 or 3 hours sometimes. And being held or on hold and then they come back and say we’ll call you back, you know, later. Another day, another day goes by and you don’t hear from them. Then you get back and try to contact them again and it can be solved right on the spot.”*

*“We really try but I’ve had to go endlessly. We tried to get the preferred rate and I’ve got a log of phone calls a mile long. Oh, it’s on Suzie’s desk and Suzie’s on vacation...And I can’t always do this. Now [spouse] handles just about all, but it takes time and time is money.”*



#### IV.b Choosing a Plan

The three participants with Direct Pay described their experiences trying to obtain a better rate for their coverage.

*“I’ve had Direct Pay since 2000. I was a member of the Rhode Island Builders Association for almost 25 years and the state legislature decided that the RI builders, because they have plumbers, painters, appliance people, all different sorts of people, they considered them a non-group. So we either stay in the group with RI builders, are charged almost 40% more or find yourself another way...The RI Builders Association would give us what was the best policy and sometimes switch every 3 or 4 years. We’d go to United Health one year, pay a couple of years. They’d raise the prices and then they’d go back to Blue Cross...and then they stayed with Blue Cross and we were so used to it...so we continued on and my wife does all the telephone calls for it. She got the best plan for the best dollar.”*

*“We’d always been covered with [spouse’s] various jobs and then when he was laid off after his last teaching job, we were paying like \$1,100 or so a month for health insurance. It’s just a lot of money. It was killing us. Then we finally got off it and we have Direct Pay.”*

While self-employed people with a low utilization history hypothetically have access to preferred rates, qualification for these rates was undefined and elusive.

*“The preferred rate bothered me. We tried several times to get the preferred rate and they kept asking us for our medical records. And we’re actually pretty healthy and any little thing that you do—the tiniest little thing—you sneeze and they took off for it. They couldn’t give me the preferred rate at all, and that bothered me, you know if you have a healthy lifestyle.”*

*“We go to a chiropractor and that was the last reason they gave us (for denial of preferred rate). We feel we go to the chiropractor to keep us healthy and we don’t even have chiropractor coverage”*

Asked if they received an explanation for the denial of the preferred rate, the response was negative.

*“They were a secret “hide in the closet” underwriter’s department. You have to go through the staff to get to these underwriters. You can’t talk to the underwriters.”*

#### **IV.c Improving the System**

Participants were asked for suggestions for improvement of the current system of insuring self-employed individuals:

*“I just think it would be nice if we had more competition. In this state we really don’t have a lot of choices, just Blue Cross and United. Hopefully, it would lower the cost and keep them more accountable.”*

*“Legislation has been passed recently...different types of plans are coming down the pike. I haven’t seen the prices on them but they are of a different nature, so that they should be more affordable...They’re health saving accounts or health reimbursement accounts and they are being offered by United this year, just haven’t seen any price tags on them, which for the right families and the right situation should be more affordable.”*

*“I would give price breaks for healthy living...[health insurance] is overpriced for healthy people.”*

There was a sense of despair similar to what we heard from small business owners who were struggling to continue offering health insurance to their employees.

*“I just think it’s very expensive and...there is not much choice and...you have to earn a lot of money just to pay for the medical, never mind make a profit, and then the increases each year, I mean...there’s nothing you can do about it.”*

## **V. Role of the State in Reducing Health Insurance Costs**

There was general agreement that the state should play a role in making health insurance more affordable, but there was some skepticism because of a perception that state mandates have contributed to the increasing cost of health insurance.

*“Every time the state steps in, consumer friendly, it mandates something else.”*

*“I think the state has to get together like we’re doing now, small business people and really find out what they’re doing to us. I don’t think that they even know what’s going on. I think they have to find out and talk to us and say, what can we do to help you out. I think that’s what they’ve gotta do. Yeah, cause we’re the ones getting hurt.”*

*“We get ours through the RI Builders Association. It was formerly a group plan and we had good experience. And then about 4 or 5 years ago, the state legislature actually signed into law that they could not be considered a group because we were all individual companies...and now we’re each one rated individually...”*

*“And they were stating that the largest group in the state of Rhode Island was small business. So they need the small business to keep the economy going but instead of helping us, everything they’ve passed has made it worse for us.”*

### **V.a Competition**

All participants believed that competition would help to reduce costs and felt that the state should allow and even invite other companies to come into the state and compete.

*“Competition, competition. It’s a business environment. There are (insurance) companies making money. Other companies will jump in because there’s money here.”*

*“Open up the market so that there’s more competition, so they still have to earn your business, so they can’t jack up prices 40% in one year.”*

*“The recommendation is to relinquish that law so small business can get a piece of other major insurance companies that are barred now to come into this state.”*

*“The lack of competition in Rhode Island, it’s unbelievable the impact it’s having on health insurance.”*

*“But if you asked me the one thing, it would be to increase competition... If ... you get more companies into the state, it will spread out the wealth.”*

### **V.b Utilization Controls, Price Controls and Tort Reform**

Controlling utilization was viewed by all as a way to control costs.

*“When you have Blue Cross Classic, you pay for your visit. You submit the visit (bill) to Blue Cross. That was really good because you had to pay out of pocket. You thought twice...but now you’ve got Blue Chip and Healthmate. You only have to pay 10, 15, 20 dollar co-pay. It’s like a credit card that you don’t pay for.”*

*“What people need is to be educated and they need someone they can call to ask advice and not be on hold for an hour to just speak to someone. Sometimes there’s a question and all they need is a simple answer. If it’s not an emergency, do this until the morning, then go to walk-in treatment instead of the emergency room.”*

*“...employees have to be educated. We have a lot of immigrants and when they first get on the plans, they’re just running to the emergency rooms ahead of time cause they did not UNDERSTAND. People need to be educated on what is acceptable, what things should be allowed, what shouldn’t be cause it is out of control. People running to doctors, emergency rooms, the reasons. There should be another form where they should need a hot line 24hr you have a problem, make that assistance call. And they also should be taught about the abuse. They should be told you can’t do this any more.”*

Price controls on physician fees were also suggested, but the discussion acknowledged that physicians’ offices had very high overhead and this led to the conclusion that malpractice insurance was driving the overhead. However, the group did not believe that tort reform was very likely because “most of our legislators are lawyers.” Members of another focus group felt that price controls on physician fees could be counteracted by other strategies.

*“They’re paying doctors less and less and you know how doctors are fighting back? First of all malpractice is going up and up. Doctors’ fee schedule is going down and down. So now you...call your doctor and ask for your lab work [results]. You’re gonna go into that office to get your [results] and you’re gonna pay a co-pay and have a visit. That’s how they’re doing it. No more can you get an antibiotic over the phone. Number one, it’s not safe because everyone’s suing...Now the doctor has to bring you in for that... There’s another co-pay and another visit to the doctor’s office.”*

## **V.c Defining the Risk Pool**

Community-based rating was suggested by one business owner as a way to better control the costs of insurance.

*“...have community-based ratings so that small businesses are put together in a pool. There’s no reason why we shouldn’t all pay the same if we’re put together as opposed to*

*experience-based rating or age-based rating. We should all be in the same pool together and that will help average out these highs and lows. And you'd have more flexibility in what your rates would be from year to year. You won't get slammed with 35, 36, 41% increases, you know, with no notice at all."*

Experience-based rating was suggested by one participant.

*"We had a small company. Nobody was sick. All we did was go for regular visits, regular checkups...and my argument was 'what about experience? That does not enter into it."*

But another participant countered.

*"You wouldn't say that if your experience was lousy."*

#### **V.d Wellness Programs**

Several participants believed that the state could subsidize health promotion programs, but there was considerable skepticism regarding the ability of such programs to improve health and to impact health insurance costs.

*"They could pay for wellness programs... One of the most difficult things for me is knowing that I have to pay for my smoking cessation programs where the state literally received a huge amount of money from the tobacco companies and that there was never a wellness program."*

*"People either have a healthy life or they don't... We all have a great diversity of friends and they all are doing different things. I can't convince one of my friends to come to the gym with me."*

*"Number 1, people are not responsible for themselves. Just go look around. I mean why should I be paying for somebody who wants to go out here and smoke their brains out. I mean I really get real upset about that."*

*"Get more revenue. Have the states collect more revenue for individuals to take on more of the burden of paying the insurance costs. And I think that's the bottom line. I think, you know I see diabetics all the time. They're grossly overweight. You're never gonna reach these people by saying stop eating all this crap and get your weight down so you can be a healthier person. Positive health comes from within and the people who have the positive health are healthy. And the people who don't are not."*

#### **V.e Associations, Co-ops, and Consumer Action**

One business owner suggested that the state “Allow associations to form a group,” but there was skepticism that “it’s not going to lower costs overall. It might lower costs for some.”

*“Why we can’t have some sort of a regional insurance type of operation, you know. What prevents a New England Cooperative or Northeast Cooperative or something providing another insurance alternative to just going to Blue Cross Rhode Island or United Health Rhode Island? Open it up so there are other markets out there that we can look to for some sort of relief on it.”*

*“I asked small business, I said why don’t they form co-ops because I’ve seen companies in Western New York do this to get better, to compete. They won’t allow them to. They changed the laws a couple of years ago for the small businesses, supposed to be to their advantage, it’s working against them. I do not know why people don’t get involved and go and do something about this. The rates are better for large corporations.”*

*“We all view health insurance as an entitlement, something that we should all have. It’s hard to think that somebody or a limited number of people are controlling all of that... we’re all a bunch of individual voices, yes, but we may, you know, in our numbers as individuals be the largest group in the state. But we don’t come together as a single group.”*

*“I said if we all as small businesses in this state don’t hold back and be a part of it and say how we feel, that’s what they’re looking for. We just sit back and complain and what good is that. We need to get together as a whole group and do something in a positive fashion. And they say because practices like my own and businesses like yours, we do not fight. That the only ones, that are fighting, are the people for Blue Cross, the people for big insurance.”*

*“Actually, if small business got together and paid one lobbyist to go and fight back...the only ones that are fighting are the people for Blue Cross, the people for big insurance. If we had someone there, we might have a say., but we all just shouldn’t be something that’s lobbied against in my eyes. The new insurance commissioner should come up with a team of regular people like us... Normal people, everyday. Small business owners...”*

## **V.f Perceptions of RItE Care and RItE Share**

Several participants responded positively when asked their opinions of the RItE Share program.

*“But recently some of the people who work on the staff are eligible for I guess it’s RItE Share. But there was a fair amount of paperwork at first but it’s minimal now. I don’t really hear much about it. They take a big chunk out of their pay but I assume there’s no problem on the other side where the RItE Share is paying them on the basis for the full*

*amount and then they make up the difference. It seems to be working well. So that's the option they chose."*

One participant felt that RItE Share should be expanded to single people who were unable to afford health insurance.

*"See this is what's hurting us now is you could be a husband and wife team working for a small business and you're getting zonked. But if you have children, you can go on the RItE Share. You know I think it should really be based by income, period, whether you have children or not...let's say my daughter who worked part time up until last year while she was part time in school, whatever. She couldn't get my Blue Cross. A lot had to do with her age. But if she, but she couldn't also get Rite Care or Rite Share cause she had to have children. What fair is that to single people?"*

Most small business representatives, however, were resentful of Rite Care and Rite Share recipients. They perceived their own rising insurance rates to be at least partly attributable to the costs of these programs.

*"I think that's (Rite Share) probably one of the reasons why our rates are higher."*

*"I didn't realize it was RITE SHARE. I thought it was Rite Care and that the state subsidizes people which, of course, ends up affecting mothers and children. Yes mother and children but I meant it ends up affecting (our taxes), money has to come from somewhere, so it's the subscriber."*

*"It's the same thing with the Neighborhood Health Plan of Rhode Island. That supposedly originally was supposed to be for single parents, moms with children. I mean we see it every day where the moms are coming in, they have the husbands with them and they're on Neighborhood Health plans. Now somebody's paying."*

In addition, focus group participants clearly view people on Rite Care as stereotypes of the irresponsible health care consumer.

*"The more people that can't afford insurance takes it out on hospitals, emergency rooms... If my doctors go to a hospital, they're all the time saying, those patients don't have insurance, they're not going to have it, don't belong in our country. That's putting our health cost up. A lot of them are on RItE Care but yet they'll take a rescue to go to the emergency room, which we're paying for. Its issues like that that need to be attacked and rectified."*

*"Make recommendations like why, please no offense against RItE Care cause people need it, but I also know that it's abused. I don't think we should be paying for a rescue because someone doesn't have a car and neglected their child that should have been taken care of cold-wise two weeks ago, ends up pneumonia because the mother's not around."*

*"They did it with the emergency rooms with Rite Care last year, I think or the year before. They did something to try to tell these mothers or fathers or whoever to control. They're not going to pay for a rescue. That's \$400. You know it's big bucks when you use a rescue cause you don't have a ride or transportation."*

### **V.g State-Sponsored Health Insurance**

Finally, the state's role in sponsoring insurance was also explored.

*"Let small businesses buy into Rite Care or Rite Share, or let small businesses buy into the plan that the state has. The state covers how many thousands of employees, 50,000 employees and they get supposedly a great deal."*

*"In an ideal world every employee paid a certain percentage, say 3% of salary, something that was reasonable, and every employer paid a percentage of their payroll. You paid that to the state and that guaranteed you that you'd be able to purchase health insurance for your employees. And then you'd select a choice of plans---Blue Cross, United, Amica, Signa—all those different health plans that you used. Competition would still be in the marketplace. Health plans would have to work to earn your business, but you'd be guaranteed to be able to get health insurance coverage. You wouldn't see these dramatic rate hikes. And then if it was shared among everybody—a million people across the state of Rhode Island—there's no reason anyone should be uninsured...Everybody has to pay a little. Everyone's got some skin in the game. Everyone has to contribute—both employees and employers. You pay to the state. The state then guarantees your coverage back so you can then choose."*

*"I think everybody is entitled to health insurance."*



## **VI. Conclusion**

### ***Summary***

The picture that emerges from three focus group discussions with the representatives of small businesses that offer health insurance to their employees suggests that most small businesses are struggling to continue to offer health insurance, and indeed, to stay in business, in the face of declining profits. The rising costs of health insurance have affected small business profitability both directly and also indirectly, by compromising the ability of small businesses to compete in the marketplace as well as to attract and retain good employees.

Shopping for less expensive insurance plans proved to be a discouraging tactic used by many businesses. Small savings were accompanied by major concessions in terms of co-pays and coverage. Focus group participants perceived health insurance premium pricing to be an arbitrary process, lacking consistent criteria. When businesses requested explanations for changes in premium costs, health insurance plans appeared unable or unwilling to provide them. However, some participants were told that premium pricing is based on the gender and age composition of the business' workforce.

Cost shifting to employees was another major strategy used by small businesses to enable them to control insurance costs, including selecting cheaper plans that have higher deductibles and co-pays, requiring employees to pay more of premium costs, and keeping pay scales low and salaries flat, as employees opt to forego raises rather than to pay a higher proportion of health insurance costs. In addition, some businesses saved money by maintaining a part time work force since they are not legally required to offer part time employees health insurance, while others preferred to hire new employees who already have health insurance through their spouse.

Most self-employed focus group participants reported having the Blue Cross Direct health insurance plan, in which individuals pay out of pocket for health care services and are then reimbursed Blue Cross' allowable fee. Unlike participants covered under a group plan, self-employed individuals must pay the difference between the charges associated with services and what Blue Cross is willing to pay. Some Direct Pay

plans were “catastrophic” in nature, that is, they cover major expenses but routine utilization such as physician visits and pharmaceuticals are paid for out of pocket.

### ***How the state could help***

Focus group participants clearly look to the state to help curb rising health care costs. They approached their recommendations with some wariness, as they perceive the state to be at least partly responsible for the current situation. In particular, they point to legislation that prohibits small businesses to form associations for purposes of negotiating plan costs. Consequently, they are left to fend for themselves, with little negotiating power. Participants argued for community-based ratings for health insurance so that small businesses would be pooled for consideration. Similarly, participants argued for insurance co-ops, and to allow associations to form a group.

In addition, both self-employed and small business focus group participants attribute the current high cost of health insurance to a lack of competition within the state. They argued that opening up the market to other health insurance companies would bring down costs and hold companies more accountable to their enrollees. Some participants suggested controls on utilization (e.g., no coverage for non-emergent care in the ER), others suggested controlling physician fees, and still others suggested tort reform, reasoning that limiting payment from law suits might indirectly lower physician fees by lowering the cost of malpractice insurance.

The most far-reaching proposal was for the state itself to sponsor universal health insurance, with employees contributing a percentage of their salary, and employers contributing a percentage of their payroll. Under this plan, the state would guarantee coverage, and individuals could choose from a range of plans, all of which would compete for their market share. This was viewed as a way to ensure universal health insurance coverage within a competitive environment that would keep costs down.

In general, the tone of these groups suggested consensus on the opinion that health insurance is an entitlement, and as such the state must take a hand in ensuring equitable and affordable access to all.

### ***The Catch 22 of Employer-sponsored Health Insurance***

It is clear that the impact of rising health insurance costs is not only on the profitability of small businesses but on their existing and potential work forces. Some

groups of employees and potential employees are more affected than others. While none of the focus group participants directly address the issue of declining employee take-up of health insurance, it is inevitable that some employees will respond to employers' cost shifting by dropping coverage rather than devote increasing proportions of their salaries to this benefit.

Employers who strategize to attain "health insurance cost avoidance" create bias in who has access to full time employment in RI, since many small businesses operate with a part time labor force to reduce health insurance costs. Current law requires businesses that offer health insurance to offer it to employees who work 30 hours or more, and businesses staff accordingly. In addition, businesses prefer to hire individuals who are already covered under a spouse's insurance plan, effectively discriminating against the uninsured. ***Thus reliance on employer-sponsored insurance creates a Catch 22 situation for some population sub-groups: Insurance is acquired through employment but finding employment is more difficult for those who are not insured.***

The age and gender composition of the work force appears to be key in determining the cost of a plan to small businesses, thus creating a hiring bias against older workers (aged in their 40s and 50s) who may drive premium costs up given their risk of higher utilization associated with the onset of chronic conditions. Similarly, young women in their child bearing years are viewed as a liability because of the risk of a highly expensive problem birth.

Finally, both employees of small businesses and self-employed employees who elect plans with large deductibles to lower the cost of health insurance find themselves facing financial barriers to accessing the care they need, since all but the most "catastrophic" health events are paid out of pocket by the insured individual. Thus, the most basic purpose of health insurance, to prevent financial barriers to needed care, is defeated by the high deductible health plan.

### ***Limitations***

A major limitation of focus group research is that findings represent the opinions of those who attend, and those who attend are typically a select group. In this instance, non-participant bias is particularly relevant because approximately 25% of businesses in

Rhode Island do not currently offer health insurance to their employees, and representatives of such businesses did not participate in our focus group sessions. It is likely that many of them tried the strategies described in this report. However, strategizing to reduce health insurance costs has its limits. It may be that the decline in profitability associated with paying expensive premiums was too large to absorb and business owners were no longer able to offer this crucial benefit. Some businesses may have folded altogether, unable to compete in the marketplace in the face of declining profits and a work force that is a suboptimal match to the manpower and expertise needs of the business.

### ***The Future***

Many of the issues that were discussed in this focus group effort have been addressed by Governor Carcieri with the introduction of the Health Insurance Affordability and Transparency Act of 2006 to establish SelectCare, an affordable product option for small businesses designed to that creates incentives for consumers, providers and insurers to control the underlying cost of care. This pending legislation is also designed to increase the transparency of health care costs. SelectCare would be funded through the creation of a \$100 million trust fund from securitized tobacco payments to the state, and will provide premium relief for eligible employers and individuals in the form of an insurer risk share arrangement. The new plan design combined with a risk sharing pool is expected to reduce premiums by 20%.

It is hoped that this legislation will enable the small businesses that discontinued health insurance for their employees to once again offer this crucial benefit, and also to enable employees and self-employed individuals to increase their uptake. Employer practices designed to hold the cost of health insurance down, e.g., operating with a part time work force, should no longer be necessary, thus eliminating biases in who has access to full time (or to any) employment and thus to employer-sponsored health insurance. Finally, it is hoped that Rhode Island can soon reclaim its position of having one of lowest rate of uninsurance in its population in the nation.